# LEGISLATIVE SERVICES AGENCY
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## FISCAL IMPACT STATEMENT

**LS 6567** | **NOTE PREPARED:** Dec 27, 2012
**BILL NUMBER:** SB 541 | **BILL AMENDED:**

**SUBJECT:** Unemployment Insurance Bonds.

**FIRST AUTHOR:** Sen. Tallian | **BILL STATUS:** As Introduced
**FIRST SPONSOR:**

**FUNDS AFFECTED:** | **IMPACT:** State
**GENERAL**
X **DEDICATED**
**FEDERAL**

**Summary of Legislation:** The bill provides for the issuance of bonds to return advances received from the Federal Unemployment Account (FUA) of the federal Unemployment Trust Fund before July 1, 2013. The bill grants the Indiana Finance Authority (IFA) the power to issue the bonds and to administer the Obligation Trust Fund. It provides that an assessment to retire the bonds requires a separate act by the General Assembly after a determination is made that the bonds may be issued.

**Effective Date:** Upon passage; July 1, 2013.

**Explanation of State Expenditures:** The bill establishes a procedure for the issuance of up to $2 B in 20-year bonds to repay the FUA advances to the Indiana Unemployment Trust Fund. The authorization of the bonds and the amount of employer premiums needed to repay the bonds would require additional legislation if the Department of Workforce Development (DWD) and the IFA determine that bonding will result in savings to the state and employers compared to paying the advance as required by federal law.

As the balance in the Indiana Unemployment Trust Fund increases, the federal employer premium rates should decrease, while state employer premium rates may be adjusted up or down, depending upon the revenue needed to repay the bonds. As of December 17, 2012, Indiana had $1.76 B in outstanding loans to the FUA.

The state is a reimbursable employer for purposes of Unemployment Insurance. Reimbursable employers are not-for-profit and governmental employers that reimburse the Indiana Unemployment Trust Fund for benefit payments to their former employees instead of making regular employer contributions. Therefore, this bill will not affect the state as an employer, as changes in employer premium rates will not affect the state.

*Background Information:* Employers pay for unemployment insurance benefits through federal (FUTA) and state (SUTA) premiums. Since 2011, Indiana employers have also paid an additional state solvency surcharge to pay down the outstanding balance owed to the FUA from the Indiana Unemployment Trust Fund. The CY 2012 surcharge rate was 8% of employer's SUTA premiums. The CY 2013 surcharge rate will not be determined until late January 2013.

Due to the outstanding loan amounts to the federal government, Indiana employers will pay a net FUTA premium rate of 1.8% of the first $7,000 in annual wages per employee in 2013, as opposed to 0.6%, which is standard in states without loans outstanding. Issuing bonds to pay down the outstanding FUA loan balance would allow Indiana employers in good standing to resume paying the standard 0.6% in FUTA. Paying off the outstanding loan balance through the issuance of bonds would not necessarily lower SUTA rates or diminish the need for the state employer surcharge.

According to DWD, interest payments to the federal government on FUA loans were $60 M in FY 2012 and are estimated to be $61 M in FY 2013, $62 M in FY 2014, and $51 M in FY 2015.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** The impact on local units of government would be as an employer. Local governments may choose to be a reimbursable employer, which would mean that changes in employer premiums would not affect their payments into the unemployment insurance system.

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of Workforce Development; Indiana Finance Authority.

**Local Agencies Affected:** Local units.

**Information Sources:** DWD State Budget Agency Presentation - http://www.in.gov/sba/2600.htm; http://www.in.gov/dwd/2558.htm; Michelle Marshel, DWD, mmarshel@dwd.in.gov; http://www.ows.doleta.gov/unemploy/budget.asp.

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